The Chartered Institute of Logistics and Transport

Outsourcing and Procurement Forum

2017 Outsourcing Attitudes Survey results

Contents

Background

The CILT's Outsourcing and Procurement Forum (O&P Forum) is a special interest group of the CILT that shares best practice and initiates research into the outsourcing of logistics services. The forum runs events, publishes articles and suggests and supports research into logistics outsourcing.

The O&P Forum has been conducting an annual survey of attitudes to outsourcing logistics services for eight consecutive years. This report summarises the main findings and points of interest of the 2017 survey that was carried out during March and April 2017.

Detailed results of this survey and previous surveys are available from the forum for the purposes of academic research or further analysis.

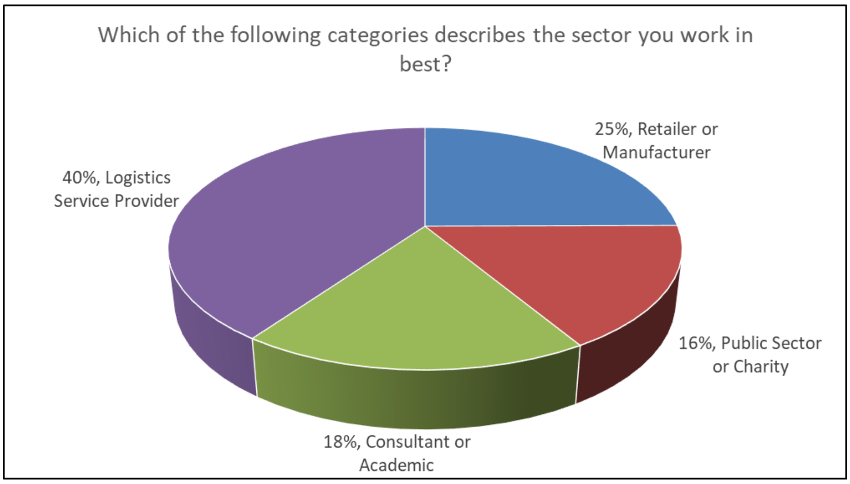
Participants

The survey was completed by almost 250 logistics and procurement practitioners and academics between March and April 2017. This was a similar number to the previous survey in 2016. The respondents were members of the UK CILT, attendees of previous O&PF events or other contacts of the committee.

The proportion of respondents from different sectors within the industry may be seen in in the chart below. There were a similar number of respondents from *shippers* (owners of the goods and typically buyers of logistics services including retailers, manufacturers, public sector organisations and charities) and *logistics service providers* (LSPs). The balance of the respondents were consultants or academics. The split by sector was similar to that in 2016.

In the survey the consultants and academics saw the same questions as the LSPs (i.e. they were asked questions about their customers). Their responses are therefore combined with those of the LSPs in most cases but split out where commentary was provided.

It should be noted that some shippers may also be providing services, particularly transport services, to other organisations. This is particularly the case for some of the public sector organisations.



Consultants and academics were asked to respond on the basis of their experience or their customers' experience.

The majority of respondents (73%) were from the UK; a further 4% were from Europe outside the UK, and just over 1% from the US. Over 22% of respondents were from other countries, the majority of which were based in Africa or Asia This was change from previous surveys where 95% of respondents were from the UK and other European countries.

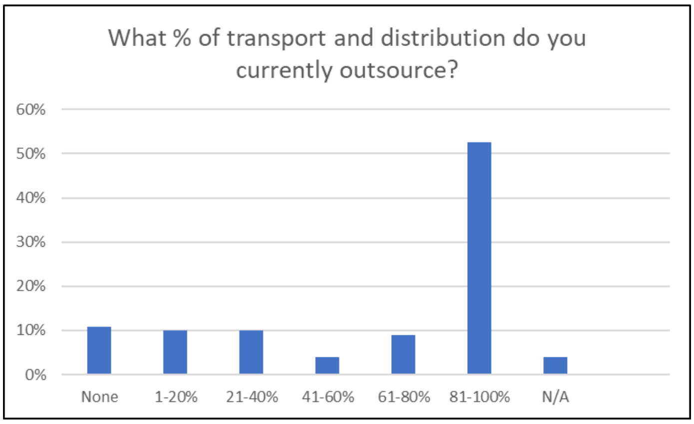
Survey results

The survey was structured into three main sections:

1) Questions on transport and distribution services
2) Questions on warehousing and related services
3) Questions related to all logistics services

Transport and distribution

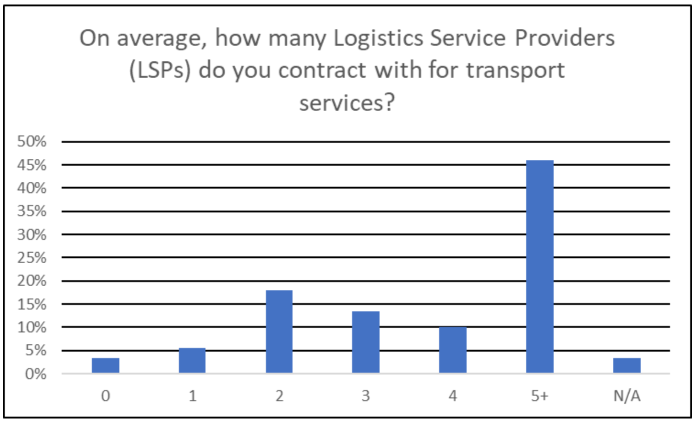
Shippers were asked what percentage of their transport and distribution they currently outsource and the results are shown in the graph here. Over half of the respondents in this group indicated that over 80% of their logistics services were outsourced. In contrast, 10% of respondents stated that their organisation runs all transport operations in house.



Some respondents commented that they only outsourced parcel services or freight forwarding activity. Others stated that they completely outsourced all activity to a single LSP or multiple LSPs.

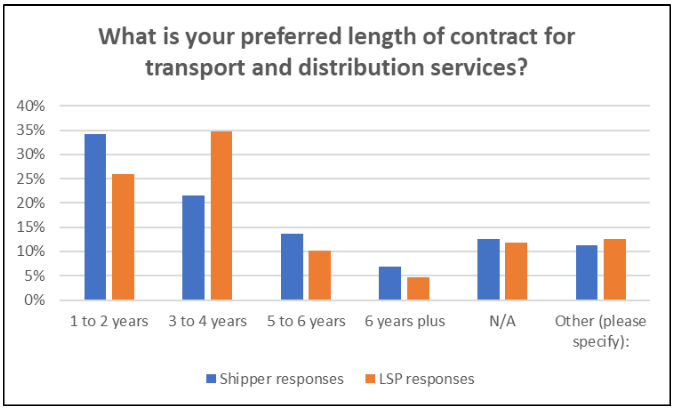
Over the last seven years of the survey the percentage of respondents selecting over 80% of services outsourced has remained roughly constant, at around 50%, despite the significant growth in the value of the global outsourced logistics services market.

The same group was asked how many transport providers they contracted with. The adjacent graph shows the responses: 46% of respondents answered that their company outsourced to 5 or more LSPs. This contrasts with a similar question on warehousing related services where 30% of respondents stated that they only contracted with one provider, and 20% selected 5 or more providers.



Contract lengths and charging mechanism

All respondents were asked what typical contract lengths were awarded for transport services; the results are shown in Figure 4 below:



The difference in contract length perception between the two groups may be explained by the comments on the LSPs responses which describe the practice of having short contracts that are renewed many times, resulting in longer term relationships.

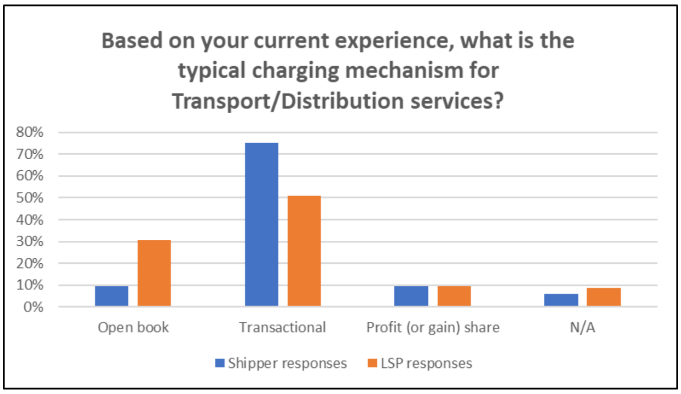
However, there is clear variability in contract lengths between different companies and also within companies for different services.

'*It varies from 6 months to 10 years'* Shipper

'*Many do not provide contracts but customers are normally with us for more than 5 years and up to 16 years.'* LSP

'*Each transporter is given a one year contract, the contract can be renewed based on service*.' LSP

All respondents were asked what the typical charging mechanism was for transport and distribution services, and most respondents selected transactional mechanisms as shown in Figure 5, however there was some discrepancy between the LSP, consultant and academics' view of the marketplace and that of their clients. Many LSPs reported that they have a wide variety of charging mechanisms and can have a combination of gainshare with other mechanisms.



The preference for transactional transport contracts contrasts with the increased use of open book contracts in warehousing.

Commoditisation of transport services

From trends seen in previous surveys and confirmed by this survey, the O&P Forum were interested in whether transport services were being increasingly bought on a transactional, price sensitive, short term basis. This was termed the 'commoditisation' of transport services and was explored further in this survey and in an MSc project with the University of Huddersfield's department of Logistics and Supply Chain Management. Ayanda Mpofu's dissertation on this topic may be found on the O&PF page of the CILT website.

60% of shippers in the survey saw a strong trend or some trend towards commoditisation of transport services; however, there were a high percentage (25%) of those who did not know or did not understand the question. These patterns were repeated for LSPs.

Comments left with the survey on this topic were mixed with some supporting the commoditisation view and others emphasising the service differentiation required in some sectors.

'*Per business policy, transport and distribution are considered a commodity; therefore efficiency in service provision and price are major factors in outsourcing decision making.' Shipper 2017*

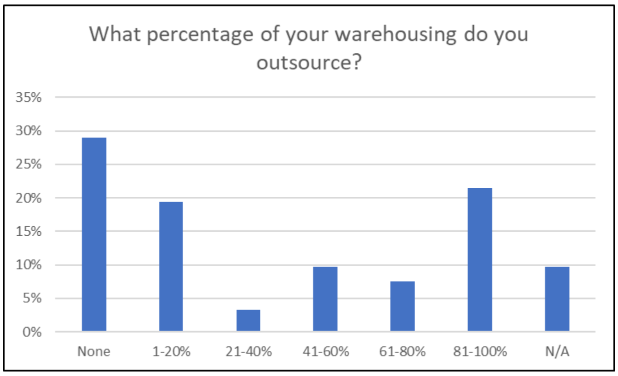
'Quality of service is more important to us than price' Shipper 2017

As companies look to buy across their group there is less emphasis on the personal relationship and more on the transaction; modern freight platforms also encourage this. Where the freight is 'ugly' this is less true' LSP 2017

This survey shows that some of the factors defined by Reimann et al (2010) for commoditisation to occur (product homogeneity, price sensitivity; low switching costs and industry stability) may be present and this will be explored in future surveys.

Warehousing services

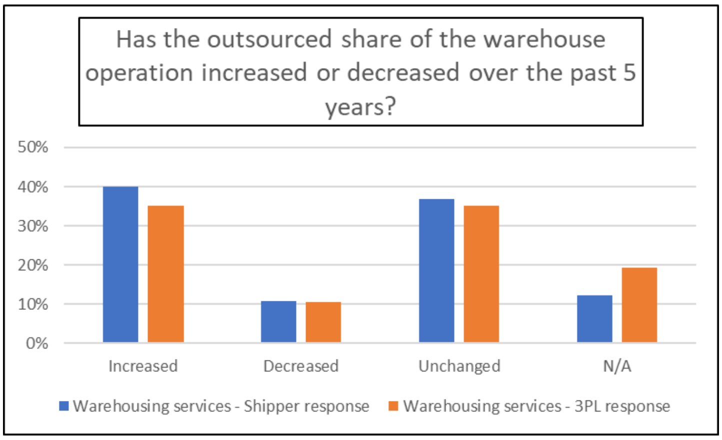
Shippers were asked what percentage of their warehousing they outsource, and the results may be seen in Figure 6. This shows a marked contrast with transport services where over 50% of respondents reported over 80% of transport services were outsourced. For warehousing almost 30% of respondents stated that none of their services were outsourced, contrasting with only 10% for transport.



In practice outsourcing may take many different forms, with property leased for an in-house operation or companies choosing to outsource some activities within an operation and not others. The location of the warehouse is also a factor in the outsourcing decision, with survey comments received regarding factory based warehouses typically run as an in-house operation.

'*The physical management is outsourced, but SAP warehouse management is managed in house'* Shipper 2017

When asked whether the proportion of warehousing services has increased or decreased over the past 5 years there was an even split between those reporting an increase and those reporting no change. However, 10% of all groups reported a decrease in outsourcing for warehousing services.

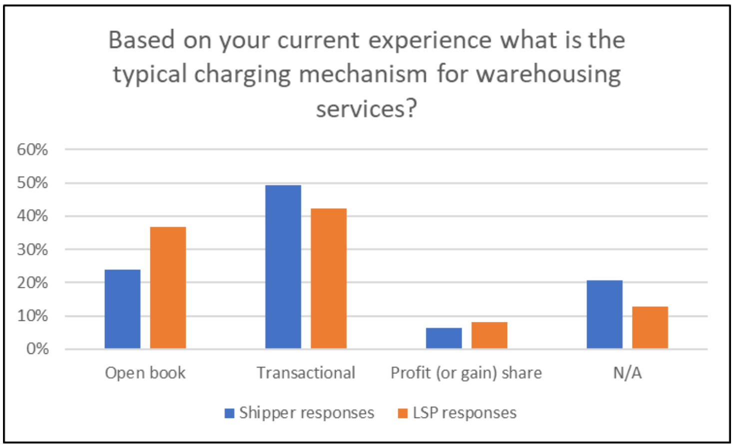


'The need to run lean internal services means that we use warehouse companies more' Shipper 2017

'*The last 5 years has seen in my view no real change, but the most vibrant companies outsource from the start and concentrate on their front end operations allowing the 3PLs to do what they do best'* LSP 2017

Contract lengths for warehousing services, where they are outsourced, are typically longer than for transport services, reflecting the property constraints and greater integration of this type of service.

The most common stated length of warehousing contracts is 3 to 4 years, compared to 1 to 2 for transport.



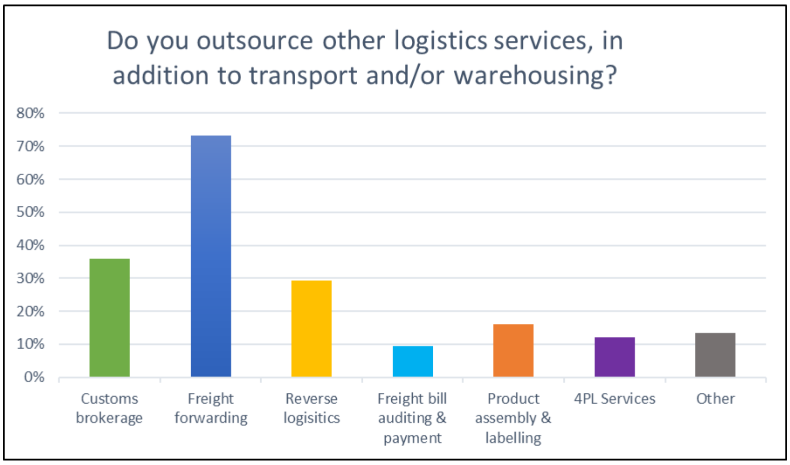
The proportion of warehousing contracts that shippers report as being open book is higher, at 24%, than for transport services where is it only 10%.

However, the transactional mechanisms appear to dominate even warehousing contracts according to both LSP and their clients. This is somewhat surprising given the increased contract length and complexity of some warehouse services.

Commented left by respondents point to transactional mechanisms being for smaller or shared user contracts whereas open book is employed for major contracts and dedicated services. Many contracts have hybrid mechanisms with elements of tariff based charges, open book charges and gainshare.

Outsourcing of other logistics services

Although warehousing and transport are the most common logistics services there are many other value added activities provided in this area, often by the core LSP. The main services are shown in the chart below.



Almost 100% of shipper respondents outsourced either customs brokerage and/or freight forwarding services.

30% of shipper respondents cited reverse logistics as a service they outsourced.

In addition to the options given in the graph respondents mentioned addition services including packaging, asset recovery, the provision of personnel, the supply of cargo handling equipment and fleet management services.

The benefits and barriers to outsourcing

As part of the survey, all respondents were asked to state three benefits of outsourcing logistics services and three barriers to outsourcing. Answers were in free text which were then grouped together into common themes. The most cited benefits of outsourcing may be seen in the table below split by type of respondent:

	Retail & Manufaturers	Public Sector & Charity	LSPs	Consultants & Academics
1	Cost reduction Cost saving opportunities, greater value for money	Saving internal resource Reduced overhead, savings on staff	Cost reduction Cost saving opportunities, greater value for money	Cost reduction Cost saving opportunities, greater value for money
2	Expertise Access to LSP expertise and professionalism	Cost reduction Cost saving opportunities, greater value for money	Expertise Access to LSP expertise and professionalism	Expertise Access to LSP expertise and professionalism
3	Focus on core More focus on core activities of the business instead of logistics	Transfer of risk More focus on core activities of the business instead of logistics	Flexibility Increase ability to respond to changing demand	Flexibility Increase ability to respond to changing demand
4	Saving internal resource Reduced overhead, savings on staff	Flexibility Increase ability to respond to changing demand	Focus on core More focus on core activities of the business instead of logistics	Focus on core More focus on core activities of the business instead of logistics

Here is can be seen that cost reduction and related topics dominate the perceived benefit of outsourcing logistics services. Gaining access to supplier expertise is the next most commonly stated benefit, followed by flexibility and focus on core.

The top benefits have remained very constant over the last seven years of the survey, with cost gradually becoming the number one perceived benefit over expertise and flexibility.

Public sector and charity respondents had a slightly different order of priority in 2017 to the other groups; they and other respondents mentioned the ability to transfer risk to the LSP as a benefit. Access to shared user services and flexibility were also mentioned frequently as benefits.

When assessing the responses related to barriers to outsourcing logistics services it should be remembered that some of the shipper respondents had little or no experience of outsourcing, whereas others had considerable experience in this area. The top barriers mentioned by respondents in each category are shown below:

	Retail & Manufaturers	Public Sector & Charity	LSPs	Consultants & Academics
1	Service/quality concerns Loss of service, reliability or quality or risk of loss	Service/quality concerns Loss of service, reliability or quality or risk of loss	Cost Increased cost related to margin, pricing or unexpected costs	Cost Increased cost related to margin, pricing or unexpected costs
2	Cost Increased cost related to margin, pricing or unexpected costs	Cost Increased cost related to margin, pricing or unexpected costs	Service/quality concerns Loss of service, reliability or quality or risk of loss	Loss of control Perceived or actual loss of control by client
3	Loss of control Perceived or actual loss of control by client	Internal politics/attitudes Negative attitudes to outsourcing within potential clients	Internal politics/attitudes Negative attitudes to outsourcing within potential clients	Service/quality concerns Loss of service, reliability or quality or risk of loss
4	Relationship Issues with SRM including lack of alignment and communication	Lack of knowledge LSP lacking crucial product, sector or customer knowledge	Outsourcing inexperience Lack of outsourcing, procurement and analytical expertise on client side	Internal politics/attitudes Negative attitudes to outsourcing within potential clients

Interestingly cost was high on the barrier list as well as the benefit list; in this case it was the additional costs through paying a margin to the LSP or the risk of unexpected costs arising through the contract. The key barrier identified by shippers was the potential risk to service or the quality of the offering. This was related to concerns on the loss of a relationship with the final customer and a loss of control.

LSPs in contrast saw internal politics and attitudes to outsourcing as a significant barrier (this was shared with public sector and charity respondents) and a lack of outsourcing experience on the part of potential clients. 11% of LSPs mentioned staffing issues including the quality of LSP staff.

IT related barriers, including issues and risks were mentioned as a significant issue by many in the Retailer and Manufacturer group, but interestingly not to a significant extent by any other groups.

Other requirements within outsourced relationships

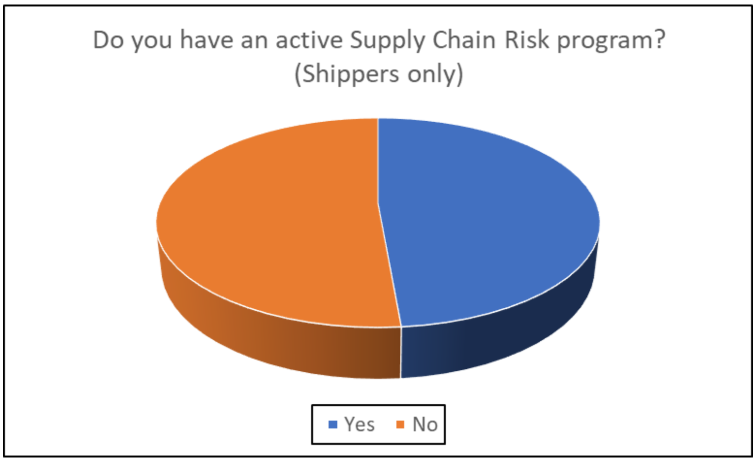
Environmental requirements

Respondents from all groups were asked whether environmental considerations form part of outsourced logistics contracts. 35% of shippers said that environmental requirements were always part of the contract and a further 33% said that they are sometime in the contract. LSPs indicated that they see a lower percentage of contracts with these requirements but all groups agreed that this was increasing.

There was some scepticism expressed in the comments as to the reality of environmental prioritisation. '*Always forms part of the tender – unclear how often it is really taken into consideration for the final partner selection', 'Most often environmental issues are part of a tender solution but rarely in a customer's Top 3 in decision making'.*

It is not clear how much of a differentiator environmental performance is between LSPs, although the focus on environmental innovation (see below) would indicate this is an area of focus.

Supply chain risk

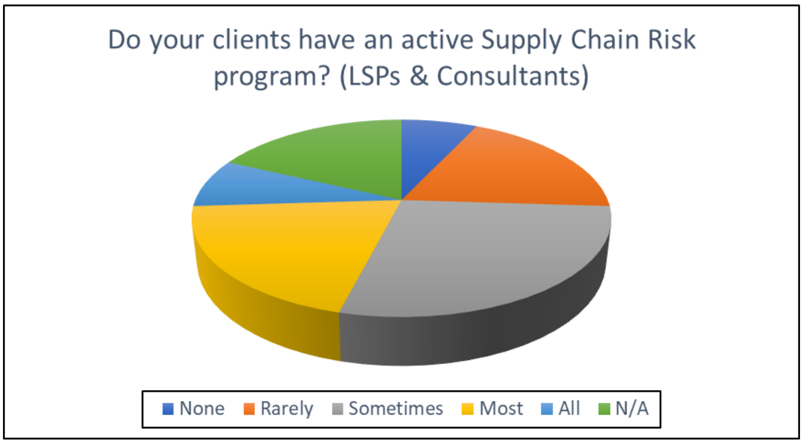


Respondents were asked whether they or their clients had an active Supply Chain Risk Management program and who owned this within their organisation.

Shippers were evenly split as to whether their organisation had a risk program or not, and this variation in risk management was demonstrated in the LSP and consultant responses.

Responsibility for risk management on the client's side was given as one of the following:

- Supply Chain Director
- Finance department
- Senior Logistics Manager
- Group Logistics
- Procurement
- Operations Director
- Contract officer



Innovation

In previous surveys a lack of LSP innovation was cited by respondents as a key cause of termination of contracts and this was investigated by the O&P Forum with Cranfield University MSc in Logistics & Supply Chain programme in 2016. Two students, Ling Zhang and Tianqi Ma prepared dissertations looking at innovation from different angles, incorporating feedback from the 2016 survey as well as feedback from interviewing logistics industry professionals. These dissertations are available on the O&PF page of the CILT website.

As can be seen in the graph below both shippers and LSPs/consultants continue to consider innovation to be important or very important in an outsourced logistics contract. However, what is meant by 'innovation' is subject to interpretation. Comments left by respondents suggest that continuous improvement and sharing of best practice are expected by shippers, particularly with a view to improving service and reducing cost.

When asked what support they require to deliver innovation, LSPs mention the following:

- Collaboration between LSP and their client
- Feedback on their ideas - are they working?
- To be open minded about potential innovation/changes
- A long term, rather than a short term, procurement and cost driven focus
- Access to information, eg. On the end customers' requirements

- Shared risk and shared reward
- Open dialogue

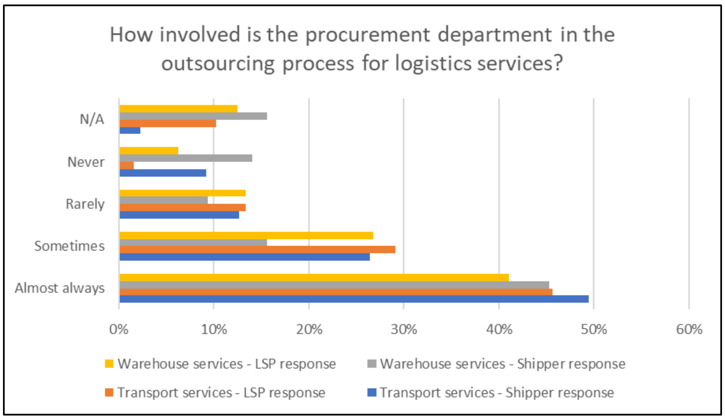
Survey respondents were also asked to give three examples of innovative practices they had observed or been part of; the key themes that were shared by respondents are summarised below:

	Retail & Manufaturers	Public Sector & Charity	LSPs	Consultants & Academics
1	Technology Automation, ASRS, sms, tracking, customer portal, paper free	Technology Electronic Invoice,"Sign on Glass" POD, training off staff using technology, social media	"Green" LNG, CNG, Hybrid, rail, fleet modernisation, water harvesting, Bio mass,	Shared services Collaboration (5x), load sharing, shared services, asset sharing, return freight
2	Shared services Shared storage, shared transport, backhaul	Shared services Shared distribution, consolidation centre,	Asset Utilisation Backhaul, night deliveries, reduced delivery frequency, Space optimisation	Technology AGVs, robotics, Web-based solutions
3	Route-to-market Direct deliveries, Parcel networks, scheduling tools	"Green" El. Vehicles	Various mechanisation, lay-out, RFID	Various Long trailers

As discussed earlier, many of these innovations are actually transfer of best practice or could be classified as continuous improvement.

Role of procurement departments

Respondents in all sectors were asked whether procurement departments were involved in the transport outsourcing and warehouse service outsourcing processes they are involved in. The responses were very similar in all groups, and showed a slightly higher involvement of procurement in transport outsourcing than for warehousing.



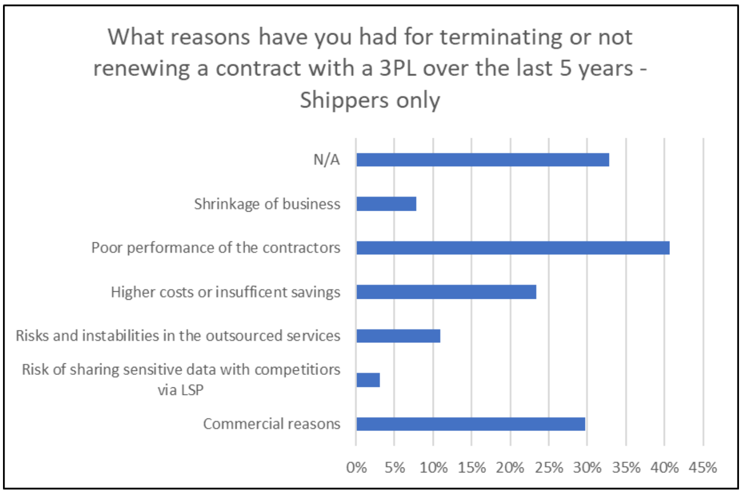
For transport, 75% of respondents stated that procurement professionals are involved 'almost always' or 'sometimes'. Comments from the LSP side included that procurement departments are always involved with major customers and one respondent in the LSP/consultant/academic pool commented that lack of procurement involvement with SME customers could sometimes cause confusion.

Warehousing services appear to be more often contracted without the involvement of procurement, but having professional procurement input is still the norm.

'Once, the procurement of logistics services would have been the province of the Shipping Manager. This role rarely exists in the 21st century. Logistics procurement is now the province of buyers who know how to buy widgets, but have little idea about logistics.' Consultant 2017

Termination and performance

In the 2016 survey, respondents were asked what reasons they had experienced for exiting an outsourced contract. Poor performance and lack of innovation were two key reasons cited and these were explored further by the forum both in the 2017 survey and through working with the University of Huddersfield's Department of Logistics and Supply Chain Management on an MSc project in this area. The MSc dissertation on 'Poor performance as a reason for terminating logistics outsourcing contracts' by Ashleigh Hartley may be found on the O&PF webpage.



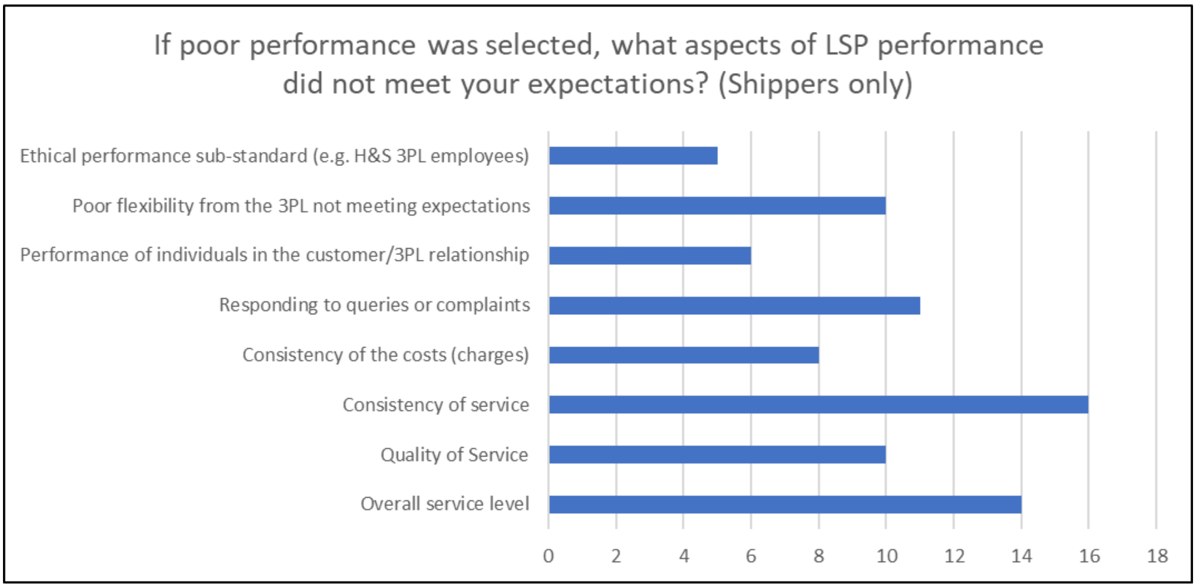
In this survey respondents were given a choice of reasons for termination or non-renewal of contracts but were also allowed to add other reasons in free text. Respondents were allowed to select more than one reason.

Here it can be seen that for the 2nd year in a row poor performance is cited as the most common reason for exiting a logistics service contract, followed by commercial reasons and cost.

For LSPs, commercial reasons were cited as the top cause for losing a contract. However, the comments left by 3PLs suggest that a breakdown in the relationship between key personnel managing the contract can be critical.

When shippers were asked to select from examples of poor performance the results were as shown in the adjacent graph.

'Reliability and meeting agreed KPIs are the most serious problem, along with staff customer service'
Shipper 2017



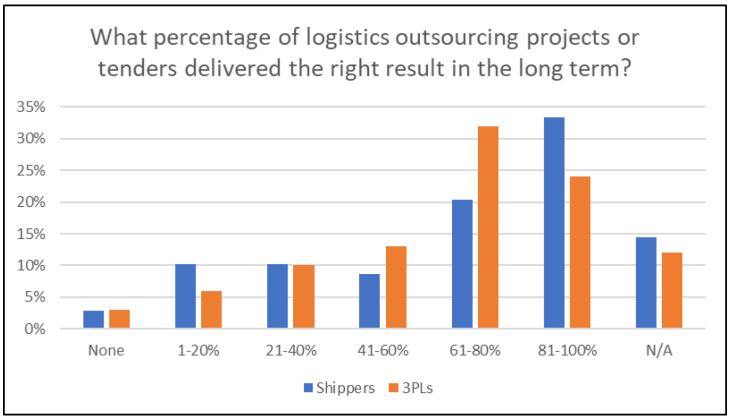
The response from LSPs was too small to be significant, however comments from this group were split between those for felt that cost was the over-riding reason for switching, to those who emphasised service and the relationship as being paramount.

'Customers tend to site relationship as an issue when they want to change. This could be because of new people in roles that don't click. There has never been a contract lost because of poor service in my own experience. All about the relationship'. LSP 2017

'Customers will change service providers at the drop of a hat for a cheaper deal' LSP 2017

Outsourcing success

Survey users were asked what percentage of outsourcing projects or tenders, that they were involved in, delivered the right result in the long term. 'Right' was defined as the desired result, i.e. cost saving, flexibility, risk reduction etc. for the shipper buying the service.



The shipper community had a slightly more positive view of outsourcing processes than the LSP and consultant community, potentially as they were making the decisions.

Commentary from the shippers suggests that benefits may only be long term and need persistence.

'*We outsourced logistics and warehousing. The savings projections were over-optimistic, but the decision was right, and we are seeing benefit*' Shipper 2017

'In some cases, a long journey requiring re-education. Persistence, drive and desire are key', Shipper 2017

The commentary was less positive in the LSP's responses and cite changing customer priorities, unpredictable business change and over focus on short term cost at the expense of the right solution. Consultants express frustration at clients not holding their LSPs sufficiently to account post award.

'*It is very difficult to deliver to the complete contract – we are trying to do too much at once. Some things like cost and flexibility (and innovation) are difficult for suppliers to completely offer- some customers expect this at no cost. For suppliers there must be something to make these extras commercially coherent.'* LSP 2017

Hot topics

The survey concluded by asking participants to suggest topics that were of particular important in the industry at present, particularly with relation to logistics outsourcing.

Most often mentioned:

- Brexit (5x)
- Labour availability, retention of young people
- Benchmarking, best practice

Comments were also left on the following topics:

- Reverse logistics
- Freight network development (hubs)
- Corruption
- Business resilience
- Blockchain technology
- Transformational journey focus – moving away from cost + fee models

The O&P Forum will explore some of these topics in its next survey and in upcoming events and research.

Acknowledgements

The O&P Forum would like to thank all those respondents who took part in the 2017 and previous surveys and those individuals who gave up time to be interviewed for the forum's MSc support related to this survey.

The O&P Forum members spent time reviewing both the proposed questions and the results of this and previous years to add insight to the findings. Dr Richard Gibson in particular spent many hours reviewing and improving the surveys and supporting MSc projects. Phil Wood of Mondalez and Rob Krikhaar of Fortna supported the 2017 MSc projects.The staff at the CILT spent a lot of time uploading and publicising the survey and we were well supported, as ever, by Ana Walker.

CIPS have supported the dissemination of this survey and the review of the results.

Cranfield School of Business and the University of Huddersfield have both provided support to the forum in the analysis of aspects of this and previous surveys. Thanks to Dr Soroosh Saghiri and Professor Samir Dani for their support to the forum. The following students analysed part of this and the 2016 survey and their work has been referred to in this report:

- Tianqi Ma, Cranfield
- Ling Zhang, Cranfield
- Ayanda Mpofu, University of Huddersfield
- Ashleigh Hartley, University of Huddersfield

The dissertations from these students may be found on the webpage for the O&P Forum

Any feedback to this report or suggestions for the survey should be sent to jogodsmark@labyrinthsolutions.co.uk

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CILT Outsourcing and Procurement Forum

The Chartered Institute of Logistics and Transport

The Chartered Institute of Logistics and Transport is the independent international professional body for individuals and organisations associated with logistics and transport. It has over 33,000 members across more than 33 countries worldwide.

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Our mission is to add value to individual and corporate members by enhancing their knowledge, careers, and businesses by setting, supporting and delivering Professional Standards and education and by promoting logistics, transport and their associated supply chains to society as a whole.

How we do this

The Chartered Institute of Logistics and Transport in the UK provides members with:

Connection

Networking and sharing of good practice and innovations with professionals from across multiple sectors and modes through regional and national events, our Young Professionals Forum and special interest groups.

Professional voice

Representing and promoting the membership and profession through our publications and policy.

Professional recognition

For members to be recognised as professionals by attaining and retaining membership, including Chartered status.

Personal development

We support career advancement through Continuing Professional Development (CPD), education, qualifications, networking, mentoring and knowledge sharing.

The Chartered Institute of Logistics and Transport

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